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INDUSTRIAL DEVELOPMENT TRENDS AND POLICY OPTIONS *

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INTRODUCTION

The pace of African industrial development has slowed perceptibly during the past decade. The growth rate of MVA per capita in Africa dropped from 4.5 per cent in 1963-73 to about 2 per cent during the period 1974-84 [1/]. The industrial sector has experienced increasing difficulties reflecting the general deterioration in the African economies and a worsening international environment. This paper attempts to assess the major changes in African industrial structures over the recent past with a view to identifying relevant options available to Africa's policy makers for the revitalization of the industrial sector. Special attention is focused on the implications of Africa's growing debt burden on the prospects of industrial development in the continent.

The paper is divided into three parts. The first part presents aggregate trends in industrial production and trade, in the structure of African debt and in the structure of concessional finance available to industry. It is also to provide a basis for assessing the vulnerability of established industrial structures in Africa to external shocks. The major gap of this section is the lack of accurate estimates of industry's share in aggregate African debt - this shortcoming can only be removed by detailed research on this topic [2/]. The second part examines the case for industrial restructuring in Africa - specifically, it takes issue with the view that a halt in the African industrialization process is inevitable, given the current economic crisis. Finally, part three examines both short- and medium-term policy options for reducing the vulnerability of African industry and for increasing its capacity to generate foreign exchange earnings.

1/ Unless otherwise indicated, all figures are from Africa in Figures UNIDO/IS.517 (Feb. 1985)

2/ A proposal in this regard is made in:"External Debt and the Industrial Sector in Africa: Outline of an Approach" (in preparation).

PART ONE: AGGREGATE TRENDS

1.1 Structural change in industrial production

During the period 1963-82 growth rates in African manufacturing have generally not lagged behind those in other developing countries. Thus African MVA grew at an annual average rate of 7.3 per cent during 1963-73, and 5.4 per cent during 1973-81. The World Bank has estimated that MVA growth rates in all low income developing economies (excluding India and China) were 6.7 per cent during the 1960s and 3.2 per cent during the 1970s. The MVA in middle income developing countries grew at the rates of 7.3 per cent and 5.3 per cent respectively during these periods 3/. While direct comparability between the UNIDO and World Bank estimates is of course limited due to differences in time periods and in price indices employed, nevertheless the African manufacturing growth experience does not appear unusual.

Three important differences somewhat concealed by these figures should, however, be noted. First, the manufacturing sector in most African countries is in both absolute and relative terms significantly smaller than in many other developing countries 4/ - the smallness of the African industrial base is partially reflected in the relatively high growth rates obtained. Secondly, industrial performance during the last four years has deteriorated very sharply in Africa relative to other developing countries. Thirdly, there are unusually wide variations in the growth performance of national manufacturing sectors.

Table 1 summarizes the growth record of the African countries over 1963-1973 and 1973-1981. During 1973-1981, 22 of the 49 countries for which data is available experienced negative rates of growth of MVA per capita. During 1963-1973 only two countries had negative growth rates. The tendency of a contraction in manufacturing industry as a whole is also reflected in the

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3/ World Bank: World Development Report 1984 p.220-221.

4/ The share of MVA in GDP of African low income countries was about 8 per cent against a group average of 14 per cent in 1982. The average share for middle income African countries was 13 per cent against a group average of 20 per cent, World Development Report 1984 p.222-223.

fact that for 18 of the 49 countries included in Table 1, the share of MVA in GDP declined between 1973 and 1981. In three countries - the Gambia, Sudan and Tanzania - the share of MVA in GDP fell by over 50 per cent during the period 1973-1981.

Declining growth has been accompanied by increased industrial concentration in the region. As Table 2 shows, the share of the top four African countries in continental MVA increased from 44.6 per cent in 1973 to 55.6 per cent in 1981 - their share of Africa's population in 1981 was about 35 per cent. The share of the bottom four fell from 0.15 per cent to 0.06 per cent. Thirty-one countries experienced a decline in their share of continental MVA. The share of ten countries in continental MVA was more than halved, while two countries doubled their share. The share of the bottom 20 countries with a population share of about 12 per cent in the whole of Africa is about 4 per cent as far as the distribution of MVA is concerned. Most of these countries have an MVA of less than $100 million each. In at least seven African countries, the manufacturing sector is almost non-existent; it accounts for less than 5 per cent of monetized GDP. Its share is likely to be significantly smaller if account can be taken of the subsistence sector within the national economy.

The high degree of industrial concentration is also reflected in the product mix of African manufacturing. Estimates of the inter-branch distribution of MVA in nine leading African countries (Egypt, Ethiopia, Kenya, Madagascar, Tunisia, Tanzania, Zaire, Zambia and Zimbabwe) show that the share of food products and textiles fell from 52.2 per cent in 1973 to 44.2 per cent in 1980. The share of consumer non-durables was, however, still over 60 per cent in the early 1980s, as compared to almost 75 per cent in 1973. The share of capital goods has doubled over this period. Capital goods - mainly metal products and assembled transport equipment - currently account for about 20 per cent of MVA. In 1973 the intermediate industrial branches (rubber products, other chemicals and non-metallic mineral products) had the highest rates of productivity (measured in terms of the value added per employee ratio). This pattern was broadly maintained in the early 1980s, but productivity in some consumer goods industries - particularly food products - has also increased. Association between labour productivity and the non-wage value added ratio is positive but relatively low by international standards. In the case of some African economies (such as Kenya), association between the

TABLE 1

GROWTH OF MANUFACTURING VALUE ADDED, SELECTED PERIODS AND YEARS
(AT CONSTANT 1975 PRICES)

TABLEAU 1

CROISSANCE DE LA VALEUR AJOUTEE MANUFACTURIERE
(EN PRIX CONSTANTS DE 1975)

Country or area	Total MVA VAM totale		Per capita MVA VAM par habitant				Pays ou zone
	Growth rates - Taux de croissance (percentage) (pourcentage)				Value - Valeur (dollars)		
	1963-1973	1973-1981	1963-1973	1973-1981	1973	1981	
Africa	7.3	5.9	4.5	2.9	38	46	Afrique
Algeria	12.8	7.0	9.7	3.5	75	94	Algérie
Angola	10.2	-10.0	8.3	-12.2	51	15	Angola
Benin	6.0	-4.2	3.2	-7.0	14	10	Bénin
Botswana	6.2	17.3	3.9	14.0	24	88	Botswana
Burkina-Faso	18.3	4.1	15.7	1.5	17	18	Burkina-Faso
Burundi	13.8	5.0	11.9	2.8	12	15	Burundi
Cameroon	2.5	6.4	0.6	4.0	40	55	Cameroun
Cape Verde	9.0	3.2	6.2	1.4	15	17	Cap-Vert
Central African Republic	6.6	1.5	4.5	-0.7	26	22	République centrafricaine
Chad	5.4	-4.6	3.4	-6.5	15	9	Tchad
Comoros	7.2	-5.1	4.4	-8.0	17	11	Comores
Congo	0.3	1.7	-2.0	-0.9	45	38	Congo
Egypt	3.3	8.2	0.9	5.5	57	87	Egypte
Equatorial Guinea	5.1	-16.1	3.1	-18.0	20	5	Guinée équatoriale
Ethiopia	8.2	3.6	5.6	1.6	11	12	Ethiopie
Gabon	10.9	14.3	9.9	12.8	90	222	Gabon
Gambia	3.5	-12.0	0.3	-14.5	20	6	Gambie
Ghana	6.9	-0.5	4.4	-3.6	67	50	Ghana
Guinea	3.3	2.6	1.1	0.1	11	10	Guinée
Guinea-Bissau	8.4	3.4	8.2	1.6	3	3	Guinée-Bissau
Ivory Coast	10.7	8.7	5.5	4.9	70	100	Côte d'Ivoire
Kenya	8.6	6.8	4.9	2.7	29	34	Kenya
Lesotho	34.3	3.8	31.4	1.4	8	9	Lesotho
Liberia	12.8	2.6	9.1	-0.9	20	19	Libéria
Libyan Arab Jamahiriya	13.6	16.3	9.1	11.7	78	155	Jamahiriya arabe libyenne
Madagascar	9.0	0.0	6.5	-2.5	29	21	Madagascar
Malawi	14.9	6.4	11.7	3.1	15	18	Malawi
Mali	4.8	3.8	2.3	1.1	9	9	Mali
Mauritania	5.1	6.8	2.4	3.9	14	18	Mauritanie
Mauritius	2.8	9.5	0.9	7.8	92	179	Maurice
Morocco	5.0	7.9	2.2	4.6	82	108	Maroc

TABLE 1 GROWTH OF MANUFACTURING VALUE ADDED, SELECTED PERIODS AND YEARS (AT CONSTANT 1975 PRICES)

TABLEAU 1 CROISSANCE DE LA VALEUR AJOUTEE MANUFACTURIERE (EN PRIX CONSTANTS DE 1975)

CONTINUED SUITE

Country or area	Total MVA VAM totale		Per capita MVA VAM par habitant				Pays ou zone
	Growth rates - Taux de croissance (percentage) (pourcentage)				Value - Valeur (dollars)		
	1963-1973	1973-1981	1963-1973	1973-1981	1973	1981	
Mozambique	13.6	-6.6	11.1	-9.0	48	23	Mozambique
Namibia	9.6	4.7	6.8	1.8	93	107	Namibie
Niger	8.0	3.1	5.0	0.2	16	14	Niger
Nigeria	7.6	12.0	4.4	8.4	28	48	Nigéria
Reunion	-1.9	5.5	-4.2	3.7	98	116	Réunion
Rwanda	15.5	16.1	12.4	12.7	4	20	Rwanda
Senegal	4.2	0.9	0.8	-1.8	49	42	Sénégal
Sierra Leone	4.5	0.2	2.1	-2.3	16	14	Sierra Leone
Somalia	21.5	2.9	19.0	-3.7	15	11	Somalie
Sudan	5.6	-2.2	3.1	-4.8	47	27	Soudan
Swaziland	18.1	11.5	15.6	8.5	91	213	Swaziland
Togo	14.0	-3.9	10.6	-6.5	24	16	Togo
Tunisia	10.0	10.9	7.9	8.3	68	126	Tunisie
Uganda	5.3	-5.8	1.8	-8.6	21	11	Ouganda
United Republic of Tanzania	10.2	-2.8	7.1	-5.7	18	9	République-Unie de Tanzanie
Zaire	12.5	-7.2	10.1	-9.7	15	7	Zaire
Zambia	12.7	-0.7	9.5	-3.8	86	67	Zambie
Zimbabwe	10.9	2.8	7.0	-0.6	138	145	Zimbabwe

two ratios declined substantivelly in 1980 compared to 1973. What is more significant, is the extremely low (not significantly different from zero in many cases) value of the rank correlation coefficient of industries ranked by labour productivity levels and rates of growth of output over the period 1973-1980. The most rapidly growing industrial branches (transport equipment, electrical and non-electrical machinery) did not rank high in terms of the productivity index. Industries with the highest levels of productivity (industrial chemicals, other chemicals, rubber products and food manufactures) grew at moderate rates. Manufacturing growth was fuelled by increased investment of financial resources. It did not occur primarily as a consequence of increased efficient use of existing resources. Investable surplus generated within the industrial sector remained relatively low.

1.2 Manufacturing exports

Relatively low levels of industrial efficiency are also reflected in stagnant export earnings. UNIDO has estimated that Africa's share in world manufacturing exports declined from 0.48 per cent in 1970 to 0.36 per cent in 1980. Over the same period, Africa's share in global manufacturing output increased from 0.73 per cent to 0.97 per cent [5/]: the widening gap between output and export growth rates indicates a gradual worsening of Africa's manufacturing trade performance. For ten of the sixteen countries for which data is available, total exports tended to grow significantly faster than manufacturing exports during the period 1973-1981 - there was therefore a decline in manufacturing's share of total exports in most African countries. Five countries - Egypt, Kenya, Morocco, Tunisia and Zambia - accounted for 83 per cent of African manufacturing exports in 1981 [6/]. In three of these countries, the share of manufacturing in total exports declined over the period 1973 to 1981.

5/ UNIDO, Industry In A Changing World, UN New York, 1983 p.104-105.

6/ Figures are from Africa in Figures, p.152, and do not include estimates for Algeria and Zimbabwe.

TABLE 2

COUNTRY DISTRIBUTION AND SHARE IN TOTAL ECONOMIC ACTIVITY OF MANUFACTURING VALUE ADDED, 1973 AND 1981 (AT CONSTANT 1975 PRICES)

TABLEAU 2

DISTRIBUTION ENTRE PAYS ET PART DANS L'ENSEMBLE DE L'ACTIVITE ECONOMIQUE DE LA VALEUR AJOUTEE MANUFACTURIERE, 1973 ET 1981 (EN PRIX CONSTANTS DE 1975)

Country or area	Contribution to African MVA Part dans la VAM de l'Afrique		Share of MVA in GDP Part de la VAM dans le PIB		Share of MVA in GDP less services Part de la VAM dans le PIB moins les services		Pays ou zone
	Percentage - Pourcentage						
	1973	1981	1973	1981	1973	1981	
Africa	100.00	100.00	9.22	10.72	14.36	18.92	Afrique
Algeria	8.15	8.79	8.34	9.21	13.00	15.73	Algérie
Angola	2.19	0.53	6.94	3.99	11.35	5.77	Angola
Benin	0.30	0.17	7.92	6.65	14.18	11.10	Bénin
Botswana	0.11	0.35	5.31	11.84	8.42	20.13	Botswana
Burkina-Faso	0.72	0.62	13.83	13.86	22.57	23.54	Burkina-Faso
Burundi	0.33	0.31	10.83	11.54	14.26	15.41	Burundi
Cameroon	2.08	2.24	10.16	11.36	21.39	22.75	Cameroun
Cape Verde	0.03	0.03	6.07	6.10	13.32	13.04	Cap-Vert
Central African Republic	0.37	0.24	12.92	13.13	22.40	21.19	République centrafricaine
Chad	0.43	0.19	11.51	7.53	19.17	12.84	Tchad
Comoros	0.04	0.02	7.07	5.34	10.16	8.54	Comores
Congo	0.41	0.29	7.14	7.63	14.16	14.88	Congo
Egypt	14.42	17.77	17.85	17.31	32.41	34.43	Egypte
Equatorial Guinea	0.04	0.01	5.49	5.28	7.83	9.32	Guinée équatoriale
Ethiopia	2.24	1.89	10.73	10.74	15.74	16.72	Ethiopie
Gabon	0.63	1.15	6.21	9.41	7.75	12.67	Gabon
Gambia	0.07	0.02	6.48	2.52	14.14	5.58	Gambie
Ghana	4.58	2.88	12.95	14.09	17.81	21.03	Ghana
Guinea	0.33	0.25	4.37	3.76	6.08	5.65	Guinée
Guinea-Bissau	0.01	0.01	1.37	1.53	2.31	2.63	Guinée-Bissau
Ivory Coast	3.12	3.94	12.97	15.59	29.04	28.21	Côte d'Ivoire
Kenya	2.64	2.76	11.77	13.34	21.56	25.75	Kenya
Lesotho	0.07	0.06	5.69	5.11	12.92	11.24	Lesotho
Liberia	0.22	0.19	4.88	5.63	6.63	8.05	Libéria
Libyan Arab Jamahiriya	1.26	2.28	1.21	3.52	1.47	6.38	Jamahiriya arabe libyenne
Madagascar	1.53	0.91	11.65	10.05	19.65	16.21	Madagascar
Malawi	0.52	0.54	12.23	12.55	17.91	19.39	Malawi
Mali	0.36	0.31	9.66	8.64	20.73	19.91	Mali
Mauritania	0.14	0.14	5.04	6.29	7.82	11.34	Mauritanie
Mauritius	0.57	0.83	13.91	20.43	21.05	35.44	Maurice
Morocco	9.74	10.74	16.89	17.58	31.45	38.67	Maroc

TABLE 2

COUNTRY DISTRIBUTION AND SHARE IN TOTAL ECONOMIC ACTIVITY
OF MANUFACTURING VALUE ADDED, 1973 AND 1981
(AT CONSTANT 1975 PRICES)

TABLEAU 2

DISTRIBUTION ENTRE PAYS ET PART DANS L'ENSEMBLE DE L'ACTIVITE ECONOMIQUE
DE LA VALEUR AJOUTEE MANUFACTURIERE, 1973 ET 1981
(EN PRIX CONSTANTS DE 1975)

CONTINUED

SUITE

Country or area	Contribution to African MVA Part dans la VAM de l'Afrique		Share of MVA in GDP Part de la VAM dans le PIB		Share of MVA in GDP less services Part de la VAM dans le PIB moins les services		Pays ou zone
	Percentage - Pourcentage						
	1973	1981	1973	1981	1973	1981	
Mozambique	3.04	1.19	9.85	7.35	16.97	13.33	Mozambique
Namibia	0.56	0.53	6.43	6.65	10.22	10.55	Namibie
Niger	0.49	0.36	10.61	6.69	16.21	9.45	Niger
Nigeria	12.30	18.31	4.74	8.17	6.70	13.25	Nigéria
Reunion	0.33	0.29	3.86	3.63	15.01	15.52	Réunion
Rwanda	0.12	0.47	3.97	13.45	5.50	19.51	Rwanda
Senegal	1.64	1.15	13.37	13.75	24.20	24.03	Sénégal
Sierra Leone	0.33	0.23	7.17	6.46	12.07	11.89	Sierra Leone
Somalia	0.32	0.26	9.48	9.67	17.01	17.78	Somalie
Sudan	5.16	2.40	15.30	7.83	27.43	18.32	Soudan
Swaziland	0.30	0.58	22.19	23.86	34.75	36.70	Swaziland
Togo	0.37	0.21	9.23	6.87	16.85	15.53	Togo
Tunisia	2.65	3.90	10.24	13.36	19.74	27.33	Tunisie
Uganda	1.62	0.69	7.37	4.29	9.09	5.15	Ouganda
United Republic of Tanzania	1.92	0.83	11.09	5.79	18.34	11.24	République-Unie de Tanzanie
Zaire	2.47	0.97	8.26	6.18	14.90	11.18	Zaire
Zambia	2.89	1.89	18.57	16.93	32.93	32.15	Zambie
Zimbabwe	5.82	5.28	25.10	26.72	42.09	47.06	Zimbabwe

1.3 Import dependence

Stagnant export levels have been accompanied by rising import levels in most African countries - until at least the time when stabilization programmes induced drastic import cutbacks. These cutbacks have had a large negative impact on growth and capacity utilization within African manufacturing due to the high import dependence of many industrial branches.

UNIDO has recently compiled data on the share of domestic production and imports in apparent consumption (defined as domestic production plus imports less exports) for over 100 commodities for over 40 African countries. This data is presented for the time period 1972-74 and 1979-81. The main features of this data are summarized in Table 3 which, however, is incomplete, primarily because it excludes all products in ISIC category 38 (SITC category 7), i.e. metal products, machinery and transport equipment. As shown above, domestic production in precisely these branches grew significantly during 1973-1981: however, since an overwhelmingly large proportion of this production is of an assemblage character, its import content is likely to be high and broadly in line with trends portrayed in Table 3.

Table 3 presents a truly alarming picture of the extent of Africa's import dependence as far as manufacturing industry is concerned. Although these figures refer to national imports, it is clear that an overwhelmingly large proportion of these imports are obtained from outside Africa. Exports of manufactures from African countries are very small - representing less than one per cent of world manufactures export. The only branches, in which the import to apparent consumption ratio is below 25 per cent for the majority of countries for which data is available, are food manufacturing and textiles. Soap is the only chemical product within this category. Two other chemical products (liquified petroleum gas and distillate fuels) have import to apparent consumption ratios below 50 per cent for the majority of African countries. Motor gasoline in 1979-81 may also be regarded as a border line case: 18 of the 41 countries for which data is available had ratios not below 50 per cent.

Table 3. Summary of data on import content of apparent consumption in selected commodities in 40 African countries

Ratio = import to apparent consumption ratio

Commodities in which ratio approaches 100% in all or almost all countries	Commodities in which ratio approaches 100% in most countries	Commodities in which ratio is not below 75% in most countries	Commodities in which ratio is not below 50% in most countries	Commodities in which ratio is not below 25% in most countries	Commodities in which ratio is below 25% in most countries
Wood pulp (72-74)(79-81)	Fish tinned (72-74) (79-81)	Raw sugar (72-74)	Butter (72-74) (79-81)	Cheese (72-74)	**Cheese (79-81)**
Pulp of other fibres (72-74) (79-81)	Malt (72-74)	Malt (79-81)	Distillate fuel (79-81)	Vegetable oil (79-81)	**Margarine (72-74)(79-81)**
Wood pulp sulphate (72-74)	Wood pulp sulphate (79-81)	Cotton yarn (79-81)	Liquefied petroleum gas (72-74)	Flour (72-74)(79-81)	**Vegetable oil (72-74)**
Newsprint (72-74) (79-81)	Other printing paper (72-74) (79-81)	Motor gasoline (79-81)	Cement (72-74 (79-81)	Refined sugar (72-74)	**Raw sugar (79-81)**
Methanol (72-74) (79-81)	Kraft paper (72-74) (79-81)	(Total 4 entries) [a]	(Total 6 entries) [a]	Footwear (79-81)	**Refined sugar (79-81)**
Glycerine (79-81)	Machine-made paper (72-74) (79-81)			Particle board (72-74) (79-81)	**Animal feeds (72-74) (79-81)**
Chlorine (72-74) (79-81)	Glycerine (72-74)			Liquefied petroleum gas (79-81)	**Beer (72-74) (79-81)**
Zinc oxide (72-74) (79-81)	Sulphuric acid (72-74) (79-81)			Cement (72-74) (79-81)	**Soft drinks (72-74) (79-81)**
Titanium oxides (72-74) (79-81)	Nitrogeneous fertilizers (72-74) (79-81)			(Total 11 entries) [a]	**Cigarettes (72-74) (79-81)**
Lead oxides (72-74) (79-81)	Phosphate fertilizers (72-74) (79-81)				**Cotton yarn (72-74)**
Ammonia (72-74) (79-81)	Insecticides, etc. (72-74) (79-81)				**Cotton fabric (72-74) (79-81)**
Caustic soda (72-74) (79-81)	Non-cellulosic staple (79-81)				**Footwear (72-74)**
Soda ash (72-74) (79-81)	Motor gasoline (72-74)				**Soap (72-74) (79-81)**
Hydrogin peroxide (72-74) (79-81)	Kerosene (72-74) (79-81				(Total 13 entries) [a]
Calcium carbide (72-74) (79-81)	Distillate fuel (72-74)				
Dyestuffs (72-74)(79-80)	Lubricating Oil (79-81)				
Vegetable tanning extracts (79-81) (72-74)	Pig iron (72-74)				
Activated carbon (72-74) (79-81)	Wire rods (79-81)				
Potastic fertilizers (72-74) (79-81)	Lead unwrought (72-74)				
Synthetic rubber (72-74) (79-81)	(Total - 30 entries) [a]				
Non-cellulosic staple (72-74)					
Regenerated cellulose (72-74) (79-81)					
Lubricating oil (72-74)					
Angles, shapes, etc. (72-74) (79-81)					
Iron plates, heavy (72-74) (79-81)					
Plates, medium (72-74) (79-81)					
Plates - sheets (72-74) (79-81)					
Tin plate (72-74) (79-81)					
Railway track material (72-74) (79-81)					
Wire, plain (72-74) (79-81)					
Tubes (71-74 (79-81)					
Tubes, welded (72-74 (79-81)					
Copper bars, etc. (72-74) (79-81)					
Copper tubes (72-74) (79-81)					
Aluminium unwrought (72-74) (79-81)					
Aluminium rods (72-74)(79-81)					
Aluminium plates (72-74) (79-81)					
Aluminium tubes (72-74) (79-81)					
Lead unwrought (79-81)					
Zinc unwrought (72-74)(79-81)					
Zinc plates (72-74) (79-81)					
Tin unwrought (72-74) (79-81)					
Tin plates (72-74) (79-81)					
(Total 81 entries) [a]					

Source: UNIDO, Africa in Figures, UNIDO/IS.517, 1985, Table 7.

Note a: Each commodity is counted twice for each time period.

Of all items [7/], 54.7 per cent had import to apparent consumption ratios approaching 100 per cent for all or almost all African countries. For another 30 items (20.3 per cent of the total), the majority of African countries had import ratios approaching 100 per cent. These two categories included virtually the whole range of intermediate industrial inputs (including most chemicals, all mineral processed products and even wood pulp and paper) necessary for the development of an integrated industrial structure. The key issue of course lies in the fact that Africa is rich in both agricultural and mineral resources. Africa has vast potential for the development of manganese, phosphates, iron ore, bauxite, tin, copper and diamond-based industries. Yet exploration and product development in these branches is virtually at a standstill and the region continues to import an increasing proportion of processed mineral intermediate products. Moreover, there would certainly have been ample prospects for increased utilization of intra-industry linkages.

Another feature of African industrial sectors revealed by Table 3 is the surprisingly little change that has taken place in import ratios over the period 1972-74 to 1979-81. Out of the 43 commodities included in category 1 (i.e. with import ratios approaching 100 per cent in almost all countries), as many as 38 remained within it in both 1972-74 and 1979-81. Three products (wood pulp sulphate, non-cellulosic sulphate and lubricating oils) moved down one category and had import ratios approaching 100 per cent in the majority of African countries. Two products (glycerine and unwrought lead) moved up to category 1. By 1981, all African countries had an import ratio of 100 per cent in these commodities.

The picture at the bottom of the list is more complex. Five of the thirteen commodities included in the lowest category (with import ratios below 25 per cent for the majority of countries) have moved; but only three (cheese, raw sugar and refined sugar) have moved in the "right" direction and achieved a lowering of their import to apparent consumption ratios over 1972-81. Movement in the intermediate categories is also limited. Seven products (malt, motor gasoline, distillate fuel, raw sugar, liquid petroleum gas, cheese and refined sugar) out of a total of 23 moved in the "right"

7/ Each commodity is counted twice: once for 1972-74, once for 1979-81.

direction. The overall impression, therefore, must be that the pace of import substitution amd domestic integration of production somewhat slackened during the 1970s and remained largely confined to the food processing branches. Some limited movement is also discernable in terms of petroleum-based products. But no progress whatsoever has been made in terms of the major categories of industrial intermediaries nor in the production of fertilizers. In all fertilizer categories the majority of the African countries continued to have import to apparent conumption ratios of approximately 100 per cent during the 1970s.

It is evident that much of the industrial investment undertaken during the 1970s was insufficiently integrated within the national economy. It was often conceived on a project basis. Linkages between industrial projects - and indeed between industrial development and the development of the economy as a whole - remained weak. This led to the growth of the so-called "white elephant" projects which constitute net drain on foreign exchange. These projects absorb a sizeable proportion of ODA flows, necessitate substantial commercial borrowings and use large volumes of imported inputs. Yet they make little significant contribution to generating foreign exchange within the economy, either directly or indirectly. A re-organization of Africa's major industrial programmes and approaches and of the processes for rehabilitating existing plants is thus an essential prerequisite for reducing the import dependence of the continent and for achieving a reduction in the debt service payments which are a growing burden on the foreign exchange resources of most African countries.

1.4 The structure of African debt

On the face of it, Africa's relatively low aggregate debt of about $96.8 billion [8/] (disbursed public and publicly guaranteed debt only) appears to be manageable as compared with the vast amount of debt owed by Mexico, Brazil and some other big debtor countries. Total African debt accounts for about one-tenth of total Third World external indebtedness. But the figure disguises the severity of the debt burden carried by African developing countries.

8/ World Bank, World Debt Tables 1984/85 p.26-27, 232-235, 240-241, 246-247.

According to an OAU report on African external indebtedness, Africa's total public and publicly guaranteed disbursed debt had increased from $57.5 billion in 1978 to $87.8 billion in 1982 with average annual disbursements of $15.7 billion during the period, and total debt service had increased by about 140 per cent from $5.5 billion in 1978 to $13.3 billion in 1982 [9/]. According to World Bank estimates the debt service burden increased to $14.7 billion in 1983 [10/].

Apart from an alarming rate of increase in Africa's aggregate debt and debt service, what is most disturbing is that the structure of Africa's debt changed considerably over the 1970s. As Table 4 shows, the share of "soft" loans (credit offered in concessionary terms in the form of a long payment period, a generous grace period and very low interest rates), declined from 62.5 per cent of sub-Saharan Africa's total debt in 1972 to 47 per cent in 1983.

In the face of diminished flows of soft loans, a handful of African countries - particularly oil-exporting and mineral-rich countries - resorted to borrowing from private banks. The share of financial markets in sub-Saharan debt went up from 14.5 per cent to 36 per cent over the period 1972-83. Thus, these countries increased their borrowing from the European Money Market from $3.3 billion in 1980 to $8.2 billion in 1981. In 1981, oil-exporting Nigeria, Angola, Gabon and the Congo accounted for 58 per cent of the Euromarket borrowings, while the new oil producers of Cameroon and the Ivory Coast claimed 18 per cent, and Kenya and Zimbabwe shared another 8 per cent [11/].

Meanwhile, most other African countries were left in the lurch and many of them turned to IMF stand-by agreements and extended fund facilities, despite difficult conditions attached to the IMF loans. Worse yet, in 1985,

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9/ OAU, "External Indebtedness of African Countries", STEERING/CTEE Doc.4.b., 11-15 Feb 1985.

10/ World Debt Tables 1984/85, p. 26-27, 232-235, 246-247.

11/ African Business, June 1982, p.71.

Table 4 Sub-Saharan Africa: Composition of Debt 1972-83

	1972	1978	1979	1980	1981	1982	1983	Annual rates of change 72-79	79-83	72-83
Financial markets	1.0	8.2	10.9	12.9	15.2	18.1	20.0	40.0	16.8	32.0
Percent of total	14.5	30.1	32.0	32.2	34.2	36.1	36.2			
Oil importers	0.9	5.8	7.3	8.1	8.9	9.4	9.0	31.6	5.8	23.3
Percent of total	13.5	21.3	21.4	20.2	20.0	18.7	16.3			
Suppliers' credits	1.0	3.4	3.5	3.1	2.9	2.8	2.4	19.1	-8.2	8.9
Percent of total	14.3	12.4	10.2	7.8	6.5	5.6	4.4			
Oil importers	0.8	2.8	2.9	2.3	2.5	2.4	2.1	19.1	-5.0	9.5
Percent of total	11.2	10.3	8.5	5.8	5.6	4.8	3.8			
Bilateral										
Nonconcessional										
DAC	0.3	1.4	2.7	3.7	4.1	4.2	4.9	34.9	14.1	32.1
Percent of total	4.6	5.2	7.9	9.2	9.2	8.4	8.9			
Oil importers	0.2	1.2	2.3	3.2	3.6	3.7	4.3	35.5	15.0	34.6
Percent of total	3.3	4.4	6.8	8.0	8.1	7.4	7.8			
Other	0.0	0.8	1.2	1.5	1.4	1.8	1.8	60.8	10.4	32.3
Percent of total	0.6	2.8	3.6	3.8	3.2	3.6	3.3			
Oil importers	0.0	0.7	1.1	1.4	1.3	1.7	1.3	58.3	5.4	29.7
Percent of total	0.6	2.4	3.2	3.6	2.9	3.4	2.4			
Concessional										
DAC	2.0	4.3	4.5	5.1	5.1	5.5	5.6	12.0	5.3	9.6
Percent of total	28.4	15.8	13.2	12.7	11.5	10.9	10.1			
Other	1.1	3.7	4.6	5.2	6.1	6.5	7.7	22.8	13.4	19.0
Percent of total	15.3	13.6	13.4	12.9	13.7	12.9	14.0			
Oil importers	3.1	6.5	7.5	8.6	9.7	10.4	11.7	14.7	11.4	13.7
Percent of total	43.7	23.8	21.9	21.5	21.9	20.7	21.2			
Multilateral	1.3	5.5	6.8	8.5	9.7	11.3	12.8	26.3	16.8	24.4
Percent of total	18.5	20.0	19.8	21.3	21.8	22.5	23.1			
Oil importers	0.9	4.6	5.7	7.6	8.3	9.7	10.9	30.2	16.6	26.7
Percent of total	12.7	16.8	16.7	19.0	18.6	19.3	19.7			
Total	7.1	27.3	34.2	39.9	44.5	50.2	55.2	25.1	12.6	21.1
Percent of total	100.0	100.0	100.0	100.0	100.0	100.0	100.0			

Source: EPD, all countries in the Debt Reporting System except Cape Verde, Comoros, Djibouti, and Seychelles.

African countries are likely to repay more than they will receive from the IMF. Repayments to the Fund under the so-called "repurchase obligations" are estimated at a total of $700 million 12/.

Another indicator of the debt crisis in Africa is the frequency of debt rescheduling. During the past five years, external debts have been rescheduled over 40 times in Africa 13/ and of 37 official debts rescheduled by the Paris Club between 1975 and October 1983, 26 involved African countries 14/.

For even those African countries with access to loans from private banks, the debt problem, as elsewhere, has been aggravated by the high interest rates of the 1980s and by increasing service costs. As Table 5 shows, the interest rates on public debts escalated from 3.6 per cent in 1970 to 8.2 per cent in 1983 for sub-Saharan Africa; interest rates on private loans increased from 6.7 per cent to 11 per cent over the same period. This means that, with the current high proportion of commercial loans in the total debt outstanding, a 1.5 per cent increase in interest rates would result in additional African interest payments of about $1 billion 15/.

Aggregate African debt belies, however, considerable variations in the severity of the debt burden carried by individual African developing countries. Table 6 reveals some measure of the debt burden carried by different countries in Africa 16/.

12/ African Economic Digest, 4 January 1985, p.2.
13/ OAU, op.cit., p.3
14/ African Research Bulletin, June 15 - July 14, 1984, p.7333.
15/ Ibid.
16/ The following country grouping was made according to World Debt Tables, 1983-1984 edition: low income Africa includes countries with per capita GNP of less than $410 in 1981; middle-income countries with per capita GNP of more than $410 in 1981.

Low-income Africa: Benin, Burundi, Cape Verde, Central African Republic, Chad, Comoros, Ethiopia, The Gambia, Ghana, Guinea, Guinea-Bissau, Madagascar, Malawi, Mali, Niger, Rwanda, Sierra Leone, Somalia, Sudan, Tanzania, Togo, Uganda, Burkina Faso, Zaire.

Middle-income oil-importing Africa: Botswana, Djibouti, Ivory Coast, Kenya, Lesotho, Liberia, Mauritania, Morocco, Senegal, Seychelles, Swaziland, Zambia, Zimbabwe.

Middle-income oil-exporting Africa: Algeria, Cameroon, Congo, Egypt, Gabon, Nigeria, Tunisa.

Table 5 AVERAGE INTEREST RATES OF LOAN COMMITMENTS

	1970	1973	1974	1975	1976	1977	1978	1979	1980	1981	1982	1983
Public debt												
Total public debt												
Nominal	3.6	5.5	5.2	5.6	5.4	5.6	6.6	8.0	7.3	10.5	8.5	8.2
Real a/	1.4	-9.9	-15.7	1.4	0.7	-0.3	-3.1	-6.8	-5.0	4.9	6.9	6.2
Total concessional												
Nominal	1.0	1.3	1.7	1.9	1.8	1.8	2.0	1.8	1.7	1.7	1.8	
Total nonconcessional												
Nominal	6.6	8.3	8.1	8.3	7.5	7.8	9.0	10.2	11.0	13.1	11.9	
Real	4.4	-7.1	-12.8	4.1	2.8	1.9	-0.7	-4.6	-1.3	7.5	10.3	
Total private source loans												
Nominal	6.7	8.7	8.7	8.4	7.8	7.8	9.4	11.2	12.4	14.5	12.8	11.0
Real	3.5	-6.7	-12.2	4.2	3.1	1.9	-0.3	-3.6	0.1	8.9	11.2	9.0
Total concessional bilateral												
Nominal	1.0	1.4	1.9	2.2	2.0	2.2	2.6	2.6	2.4	2.4	2.6	
Real a/	-1.2	-15.0	-20.0	-2.0	-2.7	-3.7	-7.1	-12.2	-9.9	-3.2	1.0	
Total official export credits												
Nominal	4.6	5.6	6.6	7.6	6.7	7.9	8.0	7.7	8.3	9.4	10.2	
Real	2.4	-9.8	-14.3	3.4	2.0	2.0	-1.7	-7.1	-4.0	3.8	8.6	
Total multilateral loans												
Nominal	4.4	4.1	3.7	5.0	3.5	4.1	3.4	3.3	3.0	5.3	4.3	5.7 b/
Real	2.2	-11.3	-17.2	0.8	-1.2	-1.8	-6.3	-11.5	-9.3	-0.3	2.7	3.7

Source: EPD, for nominal. Includes all Sub-Saharan African countries in the Debt Reporting System.

a/ Deflated by US WPI.
b/ Average interest rate for all official creditors.

Table 6 : Basic debt indicators for African developing countries and selected non-African developing countries.

LOW-INCOME AFRICA

	Population (millions) mid-1982	GNP per capita US$ 1982	GNP per capita average annual growth % 1960-82	Debt outstanding disbursed (DOD) US m$ 1981	Debt outstanding disbursed (DOD) US m$ 1982	Debt service ratio % 1981	Debt service ratio % 1982	Per capita debt (DOD/population) US$ 1981	Per capita debt (DOD/population) US$ 1982	Debt GNP ratio (DOD/GNP)% 1981	Debt GNP ratio (DOD/GNP)% 1982
Benin	3.7	310	.6	550	556	-	-	149	150	55.7	57.7
Burundi	4.3	280	2.5	160	201	-	-	37	47	16.8	20.4
Cape Verde	.3	350	-	39	61	-	-	130	203	39.8	59.5
Central African Republic	2.4	310	.6	219	222	-	-	91	93	32.3	34.4
Chad	4.6	80	-2.8	226	189	-	-	49	41	57.0	59.0
Comoros	.4	340	.9	53	67	-	-	133	168	47.4	62.2
Ethiopia	32.9	140	1.4	801	875	8.1	-	24	27	18.9	19.6
Gambia	.7	360	2.5	112	134	6.5	-	160	191	55.2	65.1
Ghana	12.2	360	-1.3	1105	1116	6.4	-	91	91	4.0	3.6
Guinea	5.7	310	1.5	1245	1230	-	-	218	216	81.1	77.4
Guinea-Bissau	.8	170	-1.7	108	126	-	-	135	158	82.6	96.3
Madagascar	9.2	320	-.5	1372	1565	-	-	149	170	48.7	55.7
Malawi	6.5	210	2.6	683	692	26.9	22.8	105	106	54.8	48.8
Mali	7.1	180	1.6	734	822	3.8	-	103	116	65.6	79.4
Niger	5.9	310	-1.5	605	603	15.8	11.8	103	102	36.7	40.2
Rwanda	5.5	260	1.7	171	189	1.5	-	31	34	13.5	13.0
Sierra Leone	3.2	390	.9	345	303	24.4	-	108	95	30.9	24.8
Somalia	4.5	290	-.1	867	944	6.1	-	193	210	46.7	78.4
Sudan[1/]	20.2	440	-.4	4806	5094	5.0	-	238	252	47.9	71.2
Tanzania	19.8	280	1.9	1497	1632	-	-	76	82	28.7	30.4
Togo	2.8	340	2.3	850	819	-	-	304	293	98.1	104.5
Uganda	13.5	230	-1.1	540	594	-	-	40	44	5.2	6.8
Upper Volta	6.5	210	1.1	284	335	-	-	44	52	22.6	29.3
Zaire	30.7	190	-.3	4118	4040	-	-	134	132	80.1	78.3
TOTAL	203.4			21490	22409			106	110		

(Table 6 Continued)

MIDDLE-INCOME OIL-IMPORTING AFRICA	Population (millions) mid-1982	GNP per capita US$ 1982	average annual growth % 1960-82	Debt outstanding disbursed (DOD) US m$ 1981	1982	Debt service ratio % 1981	1982	Per capita debt (DOD/population) US$ 1981	1982	Debt GNP ratio (DOD/GNP)% 1981	1982
Botswana	.9	900	6.8	164	209	-	-	182	232	16.9	24.6
Djibouti	.4	-	-	20	40	-	-	50	100	11.1	-
Ivory Coast	8.9	950	2.1	4390	4537	22.7	-	493	510	53.1	63.4
Kenya[1/]	18.1	390	2.8	2252	2402	16.0	-	124	133	34.8	38.4
Lesotho	1.4	510	6.5	99	139	-	-	71	99	13.8	21.6
Liberia	2.0	490	.9	636	641	5.1	-	318	321	68.3	65.7
Mauritania	1.6	470	1.4	826	1001	15.8	11.8	516	626	121.8	146.5
Mauritius	.9	1240	2.1	333	367	9.9	12.4	370	408	30.2	35.0
Morocco	20.3	870	2.6	7969	9030	31.3	-	393	445	52.8	60.4
Senegal	6.0	490	-	945	1329	-	-	158	222	38.8	55.0
Seychelles	-	-	-	34	37	.4	-	340	370	-	-
Swaziland	.7	940	4.2	161	178	3.6	-	230	254	34.0	39.3
Zambia	6.0	640	-.1	2274	2381	23.2	-	379	397	72.0	82.7
Zimbabwe	7.5	850	1.5	880	1221	4.4	-	117	163	13.8	17.6
TOTAL	74.8		-	20983	23512			281	314		
MIDDLE-INCOME OIL-EXPORTING AFRICA [2/]											
Algeria	19.9	2350	3.2	14309	13567	24.8	-	719	682	35.0	32.5
Cameroon	9.3	890	2.6	2021	1912	10.8	-	217	206	28.9	28.8
Congo	1.7	1180	2.7	1133	1370	9.5	-	666	806	68.4	78.3
Egypt	44.3	690	3.6	14250	14935	20.9	-	322	337	56.2	52.4
Gabon	.7	4000	4.4	1044	871	12.6	-	1491	1244	34.2	30.6
Nigeria	90.6	860	3.3	4946	6085	4.7	-	55	67	6.4	8.5
Tunisia	6.7	1390	4.7	3159	3177	13.9	15.4	471	474	37.8	40.0
TOTAL	173.2		-	40862	41917			236	242		

(Table 6 Continued)

MAJOR NON-AFRICAN DEBTOR DEVELOPING COUNTRIES

	Population (millions) mid-1982	GNP per capita US$ 1982	average annual growth % 1960-82	Debt outstanding disbursed (DOD) US m$ 1981	1982	Debt service ratio % 1981	1982	Per capita debt (DOD/population) US$ 1981	1982	Debt GNP ratio (DOD/GNP)% 1981	1982
Argentina	28.4	2520	1.6	10562	15780	18.2	24.5	372	556	8.8	25.9
Brazil	126.8	2240	4.8	44513	47589	33.4	-	351	375	16.2	16.9
Chile	11.5	2210	.6	4495	5239	27.2	18.7	391	456	14.2	23.7
India	717.0	260	1.3	18000	19621	-	-	25	27	10.9	12.1
Indonesia	152.6	580	4.2	15737	18421	8.3	-	103	121	19.1	21.1
Republic of Korea	39.3	1910	6.6	18279	20061	12.4	13.1	465	510	29.4	30.4
Mexico	73.1	2270	3.7	42736	50412	28.2	-	585	690	18.4	32.7
Venezuela	16.7	4140	1.9	11352	12122	12.6	-	680	726	16.7	17.8
TOTAL	1165.4		-	165674	189236			142	162		

Sources: World Bank, World Development Report 1984 and World Debt Tables, 1983-84 Edition.

Notes: 1/ Sudan's per capita income in 1982 rose to $440 from $380 in 1981 and, on the contrary, Kenya's per capita income declined to $390 in 1982 from $420 in 1981 so that Sudan is classified as a middle-income and Kenya as a low-income country in the World Bank Report 1984. However, the groupings of African countries in the three different categories are followed by those in World Debt Tables, 1983-84 Edition.

2/ Libya is not included, because it is classified as a high-income oil exporter (per capita income $8,510 in 1982).

First, a great number of small countries in the low-income group are facing the most critical debt problem. Their per capita GNPs are not only already very low and, worse yet, are declining or remaining virtually at a stand-still, but also the debt/GNP ratio for some of these countries reached alarming proportions: Togo (104.5 per cent), Guinea-Bissau (96.3 per cent), Mali (79.4 per cent), Zaire (78.3 per cent), Somalia (78.4 per cent), Sudan (71.4 per cent). In fact, more than half of the countries in the group exceeded a ratio of 50 per cent. Among middle-income African countries, Mauritania has an exceptionally high debt/GNP ratio of 147 per cent, and not far behind are Zambia (83 per cent), Liberia (68 per cent), Ivory Coast (63 per cent) and Morocco (55 per cent). Meanwhile, most oil-exporting African countries registered a healthy annual growth rate of per capita GNP ranging from 2.6 per cent for Cameroon to 4.7 per cent for Tunisia in the 1960-1982 period and their debt/GNP ratio in 1982 remained relatively low, except for Congo (78 per cent) and Egypt (52 per cent). In sharp contrast, total debt accumulated by nine major debtor countries in Latin America and East Asia combined ($190 billion) in 1982 was more than two-fold larger than the total debt of African developing countries in the same year, but the debt/GNP ratios for all nine countries remained considerably lower than most African countries, ranging from 33 per cent for Mexico to 10 per cent for the Republic of Korea.

The debt service ratio (interest payments and principal repayments as per cent of export earnings) is the most commonly-used barometer for measuring debt difficulties. The debt service ratios for sub-Saharan Africa rose from 4.6 per cent in 1974 to 20.3 per cent in 1983 [17/]. Debt service payments on public and publicly guaranteed loans by sub-Saharan Africa are expected to have increased to 25.1 per cent of export earings by 1985 [18/]. The debt service ratios of the North African countries are much higher - Algeria (36.3 per cent), Egypt (34 per cent), Morocco (38.2 per cent) and Tunisia (22.3 per cent) in 1983. While for most African countries debt repayment magnitudes are lower than for Latin American countries, this does not imply that Africa will

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17/ World Bank Tables, p.27

18/ Krumm, op.cit., Appendix Table 17.

have less painful adjustment problems required by debt-servicing than Latin America. On the contrary, it is likely to be greater, since primary commodities account for more than 80 per cent of the African countries' total exports; this makes it extremely difficult to boost exports to generate extra foreign exchange earnings for debt-servicing. It seems plausible, therefore, that the doubling of Africa's interest payments to export ratios may be equivalent to trebling or even quadrupling of the corresponding service ratio of some of the NICs in terms of the real adjustment difficulties.

Whereas gross capital inflows to Africa have during the past decade generally kept pace with the growing current account deficit, both net borrowing (gross borrowing minus amortization) and net transfer levels have shown a tendency to decline for low income African countries since 1980 - however, net tranfers equalled about 90 per cent of the current account deficit and represented 60 to 80 per cent of gross borrowing by this group in the early 1980s [19/]. For the middle-income oil-importing African countries the net transfer to gross borrowing ratio dropped from 73 per cent in 1979 to 30 per cent in 1982, due to a rapid increase in interest and amortization payments. The situation was even grimmer for oil-exporting African countries. In particular, the condition has deterioriated rapidly since 1980. This, coincided with the softening of oil prices and led to a net resource outflow of $508 million in 1982. Net borrowing (gross borrowing minus amortization) was not even sufficient to meet interest payments alone. The share of net transfer in total borrowing declined drastically from 70 per cent in 1975 to zero in 1981. In recent years, nothing has been left for financing current account deficits after interest and amortization were deducted from gross borrowing and, worse yet, more was needed to service debt. Obviously, this debt-service difficulty stems largely from the active commercial borrowing of these countries in private capital markets in hard terms and conditions.

19/ Estimates of trade and financial flows from IMF International Financial Yearbook 1984 and January 1985 and World Debt Tables 1983-1984

As mentioned earlier, it is not possible at this stage to identify the industrial sector's share of disbursed outstanding debt 20/. It is clear, however, that a decline in net financial transfers can have serious implications for African current manufacturing and for its development process. In many African countries major manufacturing establishments are operating at small fractions of their productive capacity, primarily due to the unavailability of essential imported raw material and capital inputs. They are also starved of investment needed for production restructuring and modernization. Foreign funds can play an important role in the revitalization of industry. But in the face of the present foreign exchange crisis, Africa simply cannot afford to obtain these funds on a commerical basis - those middle-income and oil-exporting countries which did so in the 1970s are the hardest hit by the present foreign exchange shortages - or substantially increased export earnings, at least in the short-run. A growth in concessional finance - particularly ODA flows - is thus of crucial importance for African industry.

1.5 The structure of Official Development Assistance (ODA)

For sub-Saharan Africa (SSA) the total net receipts of ODA from all sources amounted to $7.6 billion in the year 1982/83. This presented 30.0 per cent of all ODA received by developing countries in that year. SSA's share of total ODA has been steadily increasing: it was 25.4 per cent in 1977/78. From that year to 1982/83, total ODA grew at 6.8 per cent per annum, but that to SSA grew at 10.5 per cent. ODA has now assumed considerable significance to many struggling economies of the region. Receipts amounted to no less than 4.3 per cent of the GNP of sub-Saharan Africa in 1982/83. But this is only an average, for some countries the importance is much greater: for the Sahel group (Cape Verde, Gambia, Burkina Faso, Mali, Mauritania, Niger, Senegal and Chad) it was 17 per cent of GNP. For Tanzania it was 12.5 per cent and for Somalia 39.6 per cent.

20/ Estimates of this type can be an important output of the type of research described in the "External Debt and the Industrial Sector in Africa" (forthcoming) and some tentative estimates are presented in Table 8.

To assess the amount of ODA going specifically to the manufacturing sector in SSA, is a difficult task, both because of informational and definational deficiencies. However, Tables 7 and 8 present alternate estimates of manufacturing's share in foreign finance [21/]. Table 7 shows not only the ODA flows as recorded in the OECD Creditor Reporting System, but also the levels of other non-ODA official flows to the manufacturing sector in SSA. It thus included official loans on commercial terms such as those by the World Bank, the African Development Bank, etc.

The level of total ODA grants and loans can be seen to have fluctuated considerably and not to have exhibited any trend of growth. Having risen in 1979 and 1980, they then fell back in 1981 to a level below that of 1978. A sharp increase in 1982 was then followed by a fairly sharp decrease, to leave ODA to the manufacturing sector in 1983 at a level scarcely above that in 1979.

With respect to the trends indicated by the different items in Table 7, it can be observed that multilateral ODA has fluctuated a good deal more than has bilateral ODA. But bilateral aid almost always held the majority share of the total, at an average of 61 per cent over the whole period. Only in 1980 was the multilateral component the larger, when the share of bilateral ODA fell to 39 per cent.

Total official commitments also exhibit fluctuations of behaviour over the period, with both 1982 and 1983 showing about the same levels as in 1979. The share of ODA in the total was always between 50 and 60 per cent, except for 1982 where the share was 79 per cent. The concessional nature of official flows to manufacturing in sub-Saharan Africa has thus been maintained, even if the abolute levels have declined in real terms. Of non-concessional flows, the most marked behaviour is that of official export credits, which have fallen dramatically, and of non-ODA loans, which showed an enormous increase in 1983. This is perhaps the only positive aspect of the figures for 1983, since this represents a move, within the non-concessional area, to a form of finance which allows more flexibility to the industrialization process than export credits, which, although at fixed interest rates, are necessarily tied to the provision by a predetermined supplier or country.

21/ These estimates are taken from Dancet G., "ODA To Manufacturing Industry in Sub-Saharan Africa", (UNIDO: Regional and Country Studies Branch) forthcoming.

The statistics given in Table 7 are necessarily incomplete, since they are based on reports of individual donor countries to the OECD Creditor Reporting System. They exclude several DAC member countries: Belgium, Finland, Australia, and New Zealand, apart from non-DAC donors such as OPEC and CMEA. They also include technical co-operation commitments, which are those of personnel supply from developed to developing countries or of grants (occasionally loans) supplied to developing country students, whether for education at home or abroad. Moreover, the individual projects have to be classified according to whether they represent aid to the manufacturing sector or not. For some areas, such as vocational training, assumptions had to be made, and in preparing the table, it was all allocated to manufacturing, except when clearly inappropriate. Again some of the definitions used, such as in connection with export credits, have altered over the years.

An alternative attempt was made to estimate share in total foreign finance available to the manufacturing sector. Table 8 22/ presents an estimated picture, essentially devided into three parts: ODA from DAC members, from multilateral agencies and OPEC. Shares of 8 per cent, 8 per cent and 5 per cent were applied to the total disbursements of these three groups to SSA to derive estimates of ODA to the manufacturing sector.

Non-concessional finance can be divided into export credits, other official flows, direct investment and portfolio investment (bank lending). A previous UNIDO study 23/ estimated that 40 per cent of aggregate export credits were for capital goods for the manufacturing sector, 33 per cent of direct private foreign investment was for maunfacturing and 15 per cent of net private bank borrowing was for industrial borrowing. Finally, an estimate of 8 per cent, the same as for concessional finance, was applied to other official flows.

22/ Although the time periods covered in Tables 7 and 8 are similar, differences in sources of estimation account for substantial differences in findings. Table 7 represents a relatively firmer estimate of ODA's allocation to manufacturing in the OECD group.

23/ Kitchen R "Financial Flows: statistical background", UNIDO Industry 2000 - New Perspectives collected background paper 1979 p.107-109.

Table 7: Official committments to industry in SSA (1978-1983) on the basis of the OECD Creditor Reporting System (US $ million at current prices)

	1978	1979	1980	1981	1982	1983
DAC bilateral ODA grants and loans	127.3	183.4	102.9	146.4	179.1	157.7
Multilateral ODA grants and loans	66.0	67.3	160.6	42.0	143.0	96.5
Total ODA grants and loans	193.3	250.7	263.6	188.4	322.1	254.2
Grant like official committments	0.3	1.2	0.1	-	0.8	0.9
Direct export credits	96.7	119.7	43.3	14.5	1.6	-
Other non-ODA: export credits	-	-	117.5	95.7	82.1	27.8
Total official export credits	96.7	119.7	160.8	110.2	83.7	27.8
Other non ODA: non-ODA loans	60.0[a]	54.1[a]	81.5	50.6	17.0	146.2
Total official committments	350.3	425.7	514.8	349.2	423.5	429.1

[a] Data for 1978 and 1979 were reported under export credits
Source: G. Dancet, op. cit.

Table 8: Estimated net flow of foreign finance to the manufacturing sector in SSA (1978-1983) (US$ million at current prices)

	1978	1979	1980	1981	1982	1983
ODA by DAC countries	265	336	401	408	408	397
ODA by multilateral agencies	136	158	193	192	182	180
ODA by OPEC countries	23	28	33	28	34	35
ODA from all sources	424	522	627	628	624	612
Other official flows	59	55	104	93	91	118
Export credits	422	616	664	514	560	474
Direct investment	164	129	287	521	642	118
Portfolio investment	93	104	199	234	283	85
Non-ODA from all sources	738	904	1,254	1,362	1,576	795
Total financial flows to manufacturing	1,162	1,426	1,881	1,990	2,200	1,407
Percentage of total financial flows	13	14	14	14	15	12

Source: G. Dancet, op. cit.

Table 8 shows that the level of ODA to the sector from all sources (DAC, multilateral, OPEC) has virtually stagnated in nominal terms since 1980, having risen sharply until then. The proportions between bilateral DAC, ODA and multilateral ODA have hardly changed since 1980. But, looking further down the Table to total financial flows to industry, the picture is more dramatic. These total flows grew at an average of 17.3 per cent over the period 1978 to 1982, doubling in four years. But over three-quarters of those gains were lost in 1983, with total financial flows falling from $2,200 million to $1,470. As has been noted, ODA remained about the same, and the real losses were in the area of direct investment and portfolio investment, both of which fell to levels below those in 1978. The effect of this is to increase further the importance of ODA in total flows, with its share rising from 36.5 per cent in 1978 to 43.5 per cent in 1982. If, in addition, it is noted that export credits are usually under substanial government control, then it can be said that no less than 77 per cent of financial flows to the manufacturing sector in sub-Saharan Africa require some government involvement. National policies can thus play an important part in restructuring industrial investment in Africa.

The overall picture is thus clearly a sombre one. Manufacturing growth rates have declined, concentration has increased, export levels have been stagnant and import dependence remains high. Net transfers are declining and the debt service to export ratio is likely to increase in the immediate future. Total foreign resources available for industrial rehabilitation have fallen significantly since 1983. This has led some policy makers to advocate an economic strategy which downgrades the importance of sustaining industrial growth in Africa. The next part of this paper examines the rationale behind a continued emphasis on African industrial development.

PART TWO: THE ROLE OF MANUFACTURING IN AFRICAN RECOVERY

That Africa faces a very serious economic crisis is not in doubt. Although commodity prices have improved somewhat during 1984, export growth is restricted by a declining agricultural sector severely affected by the drought. Most economies face rampant inflation and declining production levels. Capacity utilization rates - particularly in manufacturing - have

declined dramatically. In many African countries capital utilization rates are as low as 30 per cent - largely due to the high import dependence of most manufacturing plants combined with the present severe foreign exchange shortage. There has also been an important change in both the level and structure of gross domestic investment. During 1970-79, gross domestic investment had tended to grow faster than GDP (3.2 per cent as against 2.9 per cent) in sub-Saharan Africa [24]. Since 1980 many states (Nigeria, Swaziland, Tanzania, Zambia, etc.) have reduced government investment levels substantially in order to contain the budget deficit. Foreign private investment has declined from a peak of $3400 million in the late 1970s to $1800 million in 1982, and has not recovered since [25]. Moreover, investment inefficiencies persist and net surplus generated within the manufacturing sector remains low. This has also contributed to a fall in capacity utilization rates by limiting capabilities of firms to purchase spare parts, and carry out technology up-grading.

It is apparent that the African industrialization process launched in the 1960s has entailed high economic costs. Since the early 1980s the World Bank has produced a series of documents detailing these costs [26] and outlining new approaches to increase returns. The Bank thus recommends an export-oriented approach which seeks to exploit Africa's revealed comparative advantage in world markets. It calls for an expansion of the role of the private sector in manufacturing and for a curtailment of parastatals. According to the Bank, market-oriented price incentives should be the main instrument for achieving industrial restructuring in this perspective, and protection levels should be reduced.

24/ Wangwe S.M. "Sub-Saharan Africa: Which Economic Strategy?", Third World Quarterly Oct 1984 p.204.

25/ African Economic Digest 21 Dec 1984, p.17.

26/ The first of these was World Bank: Accelerated Development in Sub-Saharan Africa, 1981.

Such a strategy may contribute to increasing the integration of African national economies within the world economy. The product areas in which growth can be expected on the basis of such a strategy are those on which African countries have a revealed comparative advantage. These have been estimated by UNIDO for five African countries for the period 1976-78 and are reprinted in Table 9. It will be seen that the overwhelming majority of these products are simple consumer goods. It is, however, difficult to discern how an industrialization strategy of this type could be able to reduce Africa's import dependence, within either the agricultural or the manufacturing sector. It is also unlikely to lead to export expansion as rapid as that envisaged. It has been shown that the expectation of an annual average rate of growth of 28 per cent in the value of Africa's manufactured exports during the 1980s is quite unrealistic 27/. Export growth achieved by even the more "market-oriented" African countries during the 1970s has been substantially below this level 28/. Thus, foreign exchange problems do not seem to be significantly alleviated by pursuance of such policies at least in the short run.

An important factor that deserves mention in this context is that a strategy currently advocating a far-reaching liberalization and deregulation may lead to a reversion to the patterns of development that prevailed during the pre-independence period in most African countries. During this period, Africa remained one of the most open regions within the international economy. This "openness" contributed towards its international integration in the form of a dependent periphery, unable to base its own development on an increased domestic utilization of its considerable mineral and agricultural resources on the one hand and unable to influence the process of price formation in international markets on the other. An industrial strategy in the 1980s needs to be based not only on a pursuit of existing international comparative advantages and one-sided liberalization as this could mean that a large proportion of manufacturing activity in most African countries could

27/ M. Godfrey "Exports and Structural Adjustments in Sub-Saharan Africa", IDS Bulletin Jan 1983 p.39-40.

28/ B. Balassa, "Export Response to External Shock in Sub-Saharan Africa", Journal of Policy Modelling, 1983, p.75-102. The export performance of market-oriented economies was superior to that of interventions and countries according to Balassa.

Table 9: Products with Values of the Revealed Comparative Ratio 1, for Five African Countries, 1976 - 1978

Egypt	Ivory Coast	Kenya	Morocco	Tunisia
Preserved fruit	Food preparation	Meat preparation	Fish preparation	Cereal preparation
Vegetable tubers	Fruit preparation	Meat and flows	Cereal and starch	Dried fruit
Sugar	Coffee extract	Fruit preparation	Fruit preparation	Preserved fruit
Food preparation	Animal feed	Tea	Animal feed	Sugar
Alcoholic beverages	Reclaimed rubber	Margarine	Alcoholic beverages	Alcoholic beverages
Wool products	Shaped wire	Food preparation	Pulp and waste paper	Pulp and waste paper
Petroleum products	Petroleum product	Petroleum product	Animal oils	Vegetable oils
Essential oils	Vegetable oils	Inorganic chemicals	Vegetable oils	Inorganic chemicals
Cosmetics	Essential oils	Dyeing extract	Inorganic chemcials	Essential oils
Leather products	Chemical materials	Pharmaceuticals	Manufactured fertili-	Leather and leather products
Textile yarn	Wood manufacture	Soap	zers	Cork manufactures
Cotton fabrics	Paper manufacture	Chemical materials	Leather products	Cotton fabrics
Made-up textiles	Cement	Leather	Cork manufactures	Made-up textiles
Floor covering	Road vehicles	Fur skin	Textile yarn	Floor covering
Aliminium		Wood manufacture	Cotton fabrics	Lead
Furniture		Paper products	Textile fabrics	Metal containers
Travel goods		Cement	Toiletries	Travel goods
Clothing		Glassware	Silver production	Clothing
Footwear		Metal containers	Lead	Vegetable tubers
Printed matter		Household metal pro-	Household equip-	
		ducts	ment of metal	
			Furniture	
			Clothing	
			Footwear	
			Other manufactures	

. The revealed comparative advantage index RC_A is defined as: $RC_A = \frac{Xij/Xim}{Xwj/Xwm}$

when Xij = export of product j by country i
Xwj = world experts of j
Xim = total manufacturing exports of i
Xwm = world manufacturing export

Source: UNIDO. Changing Patterns of Trade In World Industry, UN New York 1982, p. 23-24, 67-69, 110-113, 118-120, 132-134, 186-188.

simply be wiped out. The development of a viable industrial base capable of effectively utilizing Africa's abundant natural resources must remain an important policy priority. The creation of such an industrial base is a necessary precondition for sustaining an export-oriented industrialization strategy capable of exploiting dynamic comparative advantages.

The industrialization pattern that has been established during the previous two decades has shown not to be able to lead to sustained socio-economic growth. Industrial development is, however, essential to reduce Africa's international dependence and vulnerability to external shocks. African industry needs to be restored and be directed towards alleviating Africa's present economic problems and establishing the base for a resumption of economic growth.

To this end, Africa's industry needs to be restructured in two fundamental ways. First, industrial development must be better integrated within national economies. Industry must become resource-based. The proportion of imported inputs in total supply - reported in Nigeria to be as high as 60 per cent - must fall. Industry must produce more of the equipment and commodities required for the revitalization of agriculture. The development of both a fertilizer and an agricultural machine tool industry suited to Africa's resource potential and the prevalent land tenure system is of vital importance for augmenting productivity in both the food and the cash crop sectors. Efforts must also be made to revitalize the small-scale industries operating in rural and semi-rural centres geared to serving agriculture's needs. In the past, the growth of modern industrial enterprises has often contributed towards a destruction of the informal village industrial sector, thus impairing industry's links with agriculture. In most African countries - even large ones such as Nigeria - the amount of local subcontracting remains abnormally low. There are large "gaps" in the industrial sector, indicating an absence of local suppliers of simple intermediate inputs. The filling of these gaps must involve increased emphasis on the development of small-scale and village-based industry in Africa 29/.

29/ On Nigeria see UNIDO Industrial Development Review, Nigeria (forthcoming).

Secondly, the need for revitalizing village industry (as a means for increasing linkages between agriculture and industry) indicates another aspect of industrial restructuring. The present industrial structure in most African countries consists of a state sector on the one hand and a foreign enterprise sector on the other. The domestic private sector is small and relatively insignificant, except perhaps in the larger countries such as Nigeria, Egypt and Morocco. Relations between private industry and government are often strained. Foreign investment is welcomed as a source of technology transfer and hard currency resources but foreign enterprises often turn out to be instrumental to rising repatriation of profit and salary. Many African countries experience a high level of surplus repatriation. In Swaziland the net outflow on the service and short-term capital account equalled 50 per cent of export earnings during 1979-82 30/. Repatriation levels are also relatively high in Nigeria and Zambia. Attempts at regulating these outflows have often not been sufficiently well explained to foreign investors and policy inconsistencies have sometimes created both confusion and resentment.

There is thus a need to build a new relationship between government and private industry - both domestic and foreign. This cannot simply take the form of whole-scale across-the-board "deregulation". It should involve extended co-operation on the lines of some of the more successful East Asian countries, where government support in specific areas is bartered for improved performance, increased domestic investment and utilization of locally produced raw material and intermediate inputs and greater access to foreign markets. That significant scope for such co-operation exists is testified by many facts. Many prices which Africa pays for her imports are administered prices determined by ologipolistic collusion among a relatively small number of firms. The precise methods by which such arrangements operate in the case of the world electrical engineering industry (which supplies a significant proportion of Africa's manufactured imports) has been thoroughly documented 31/. Substantial price distortions also exist in the domestic economies of most African countries. The price and taxation systems contain

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30/ UNIDO Industrial Development Review, Swaziland UNIDO/IS.516 (1985).

31/ Epstein B. and Newfarmer R. "Imperfect International Markets and Monopolistic Prices to LDCs", Cambridge Journal of Economics No.1 (1982) p.33-52.

inconsistencies which sometimes deter and frustrate foreign investment initiatives. Protracted negotiations on a continuing basis can contribute towards improving the terms on which technology imports are made available to Africa. Governments can reciprocate by enhancing opportunities for increasing regional trade, rationalizing price structures and adopting appropriate fiscal policies.

Building a new partnership between government and industry and restructuring industry to increase its linkage with agriculture can constitute key elements in a programme for reducing Africa's vulnerability to external shocks and its dependence on imported technology, raw materials and finance. This dependence has become acute during the present crisis, but it is a legacy of Africa's colonial past. Getting rid of this legacy involves not de-industrialization but a restructuring of industry in order to make it a tool for improving Africa's development performance.

Finally, it must be stressed that a restructuring of African industry, through increasing linkages with agriculture and building a new partnerhsip between government and industry, necessitates a substantial re-organization of the industrial policy-making processes in African countries. Careful and dispassionate analysis of the mistakes made during the past decade will lead to an identification of the ways in which specific projects became instruments for accelerating the deterioriation of the foreign exchange position of African countries. The rehabilitation of existing projects and the organization of new ones can the be undertaken within a policy framework which avoids the past mistakes and promises a more efficient and effective utilization of both domestic and foreign industrial finance.

PART THREE: MANAGING INDUSTRIAL DEBT

The effective utilization of foreign industrial finance is clearly a policy priority for Africa today. The industrial sector's share in total African debt is unlikely to be large - UNIDO estimates as reflected in Tables 7 and 8 put it at between 5 and 8 per cent in recent years. However, industry's capacity to generate foreign exchange earnings is also very low and as noted in the previous paragraph, many large projects have become

chronically dependent on foreign finance. A reduction in the availability of foreign exchange can have very serious implications for African manufacturing. The following pages discuss policies that may be appropriate for reducing the vulnerability of the industrial sector to changes in foreign financial inflows.

3.1 Short-term policy options

African Governments and most donor agencies would agree that, despite present difficulties, there exists an identifiable set of manufacturing enterprises which deserve to be salvaged and rehabilitated. Criteria for identifying these enterprises would differ from agency to agency. Part Two of this paper has argued that priority ought to be attached to enterprises producing inputs for agriculture, capable of filling production "gaps" in the intermediate and capital goods branches, processing mineral resources, and those which are primarily (at least potentially) export-oriented. The development of a "short list" of such enterprises and an estimation of the irreducible minimum level of foreign resources necessary for their rehabilitation could be a basis for negotiating the terms on which foreign finance can be made available to these enterprises.

It is generally believed that the ability of the African countries to renegotiate international financing arrangements is low. However, there is increasing recognition that the evident inability of many African countries to service their debt in the short-run by simply cutting consumption levels enhances their scope for renegotiating the terms for debt rescheduling. This is because the responses of public and private creditors to sustained and drastic welfare loss in debtor countries ranges widely [32/]. African countries stand to gain from carefully identifying sources of industrial finance on a project-by-project basis and by adopting negotiating stances that are attuned to creditor sensitivities and priorities [33/]. Individual

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30/ For one description of differences in credit response see Krumm, K., Sub-Saharan African Debt, World Bank, 1985, p.28-32.

31/ Priorities and sensitivities of banks whose loans to developing countries form a large proportion of their total loans differ from those of banks whose DC loans are of subsidiary importance. For example, the former seek to avoid a defaulting situation at all costs. See F. Stewart "International Debt and North-South Relations", World Development, Vol.13, No.2, 1985, p. 194-195.

African countries would also stand to gain significantly by pooling negotiating resources on the debt issue as shown by the Latin American experience. Some African countries - such as Algeria where bank debt amounted to 13.5 per cent of total debt in 1982 [34/] and Nigeria which successfully renegotiated its private export debts during 1984, despite friction with the IMF - have considerable negotiating clout. A co-ordination of African national debtor strategies can pay rich dividends in terms of linking the regeneration of repayment capacities to the servicing of debt with the industrial sector.

It might be argued that renegotiating debt offers opportunities for building alliances including countries in Asia, Africa and Latin America with serious structural imbalances and liquidity problems and a consequent inability to service their debt.

Such an economic categorization of African countries as well as other developing countries will draw an immediate comparison with the post-1975 category of Most Seriously Affected countries (MSAs) in the wake of the first oil price adjustments. This category was accepted within the United Nations, including the Bretton Woods institutions. We would replace this category with Most Imbalanced Structure Economies (MISE) which would be a category which could serve as a rallying point for developing countries, some developed countries and those groups within virtually all countries which share a common concern. The procedures to draw political and economic support for the MISE countries could be similar as in the post-1975 period, with the difference that in 1985 and probably in succeeding years the most adverse economic circumstances can be expected to continue. In particular Africa's drought and the economic and social dislocation brought about by this catasprophe will persist unfortunately for some time. As on the previous occasion, a perhaps successful attempt can be made for all MISE countries to receive concessional finance from the World Bank and the IMF. Concessional finance allocated to industry should be used to provide working capital, spare parts, intermediate inputs and imported know-how and skills essential for sustaining justifiable industrial investment in the short-run. It needs to be recognized that service inputs, bilateral or multilateral, provided through technical

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34/ Stewart F. op.cit. p. 200

co-operation projects implemented by international or national donor agencies, or for the matter by commercial enterprises, do not face much chance of success, unless such arrangements are underpinned by resources based on minimal financial support. Technical assistance services should be combined with the minimal necessary financing for the purchase of spare parts and raw materials at least on a temporary basis. Similar considerations apply with regard to commercial arrangements of various types where provision would need to be made not only for inputs of management and expert services, as is readily recognized, but such arrangements would also need to be supported by the involvement of finance institutions and/or the supply of finance. In this connection, attention might need to be focused on those developed countries which recongize the urgency of these problems. Arrangements are required to stimulate and support particularly those small and medium-scale enterprises in the DMECs, for which opportunities in the MISE developing countries could prove to be of mutual benefit; some of these enterprises in the industrialized world are seeking new markets for the most valuable resources they possess: various skills, expertise, services. It is clear that an essential aspect of such arrangements would be the willingness of developed country governments to provide effective institutional support to the efforts of both their small-scale enterprises and to MISE country governments.

African Governments must complement increased international support by policies that significantly improve the processes of project selection, implementation and administration. Often projects have been approved merely because foreign resources have been available for undertaking them. This has led to many costly mistakes in the past. An improvement in project planning techniques and procedures is necessary for a realistic assessment of market opportunities and resource potential. This and a rationalization of domestic price structures is an essential prerequisite for an effective utilization of foreign concessional resources allocated to industry.

3.2 Medium-term policies

International concessional assistance available to industry can also be the subject of negotiation between donor and recipient government. An important adverse feature of ODA flows is the extent to which they are tied to procurement in donor countries. Difficult economic conditions in developed countries create pressures for their aid programmes to act in support of

domestic industry. Some developments in this area include the strengthening in 1983 of the DAC guiding priciples on export credits, in order to imporve the transparency of "associated financing". This is a variant of tied aid in which ODA is combined with other non-concessional finance in such a way that part or all of the package is tied to procurement in the donor country. After the adoption of these guidelines, the volume of associated financing has fallen. But tendencies towards bilateralism further enhance the likelihood of increased tying of aid, with its inevitable shift of emphasis away from the needs of the recipient economy towards those of the donor.

Another form of tied aid, as district from project aid or associated financing, is a commodity import programme. This is in effect an addition to the recipient country's foreign exchange (and total) resources, but the money has to be used for the purchase of goods from suppliers in the donor country. It is thus more flexible than project aid, and can make it easier for the recipient country to obtain foreign exchange for essential inputs. Sometimes ODA is given in the form of balance of payments support - e.g. Swedish assistance for financing Tanzanian oil imports. This type of aid, however welcome in the short run, tends in the long run to increase the international dependence of the recipient economy. ODA should be used for strengthening the planning and decision-making processes, particularly in the countries of sub-Saharan Africa, whose independence is usually of a relatively recent date, not for increasing dependence. Confronted with pressing social and economic difficulties, the ability of administrations to deal not only with crisis management but with the efficient absorption of ODA is clearly under strain.

In donor country perception of Africa, there is clearly an inherent bias in ODA towards the short- or medium-term, rather than the long-term. Even for longer-term ODA, education and perhaps agricultural self-sufficiency might be highest in donor country public perception. Appreciation of the central role of industrialization in development has to contend with the revealed urgency for measures in other areas, and requires a medium- to long-term view. The recent trends of negative growth in fixed investment in Africa and the difficulties in mobilizing domestic savings make the success of the Industrial Development Decade for Africa crucially dependent on foreign resources, especially given the high import content of industrial investment in the region.

The question of time-horizon is closely linked with that of sectoralism, i.e. the sectoral focus of ODA. Aid to other sectors can help manufacturing also if agricultural or infrastructural development use inputs of the local manufacturing sector and if such development create increased demand for manufactured products. Improved infrastructure, education, communications, and energy supplies all can have a positive effect on manufacturing.

In practice, however, the operation of such mechanisms, especially in the African context, have not brought the benefits that might be expected. The presence of aid tying naturally militates against the use of local inputs in a project: it may also be associated with the project in its operational phase if it depends on imported inputs in the future. This type of industrialization is an inappropriate application of sectoral aid: even if the imported inputs are not specifically required to come from one country, the progress of the industry is nevertheless absolutely dependent on foreign imports while the export earnings are determined by fluctuations in international competitive markets and in exchange rates.

Some bilateral donors make special efforts to encourage local content, fostering the growth of manufacturing by planning its inputs into aided projects in other sectors. In view of the incomplete industrial structures in most African countries and the need to exploit complementarities as far as possible, ECDC is an essential feature of the Lagos Plan of Action and the Industrial Development Decade for Africa. The need may well be for aid tied to procurement within the region as far as possible. Indeed, regional co-operation may become more explicitly a focus of ODA to manufacturing, such as is occurring in the SADCC region, whose projects have attracted a significant amount of bilateral and multilateral assistance.

From a medium-term perspective there is also a need to restructure the content of concessional finance. Within industry there is a particular need for expertise for strengthening the institutional infrastructure and improving managment and accounting services. Developing countries such as Algeria, Brazil, China, Egypt, India and the Republic of Korea may be able to provide such assistance more cheaply and effectively than developed countries. There is scope for developing packages within Third World financial institutions and elsewhere for combining arrangements for the procurement of both finance and expertise necessary for the rehabilitation of specific manufacturing enterprises and sub-sectors.

Whereas significant scope exists for improving the terms on which concessional finance is made available to Africa and perhaps also for altering its content, the question is whether it is realistic to expect the type of "massive transfers" advocated by the Brandt Reports and some other authors in the early 1980s [35/]. Aid volumes seem unlikely to rise in real terms at least in the medium-run. It may, however, be important to re-examine and reiterate the mechanisms of some of these proposed schemes in the light of the particular problems facing Africa today. Thus, along the lines of the proposal originally conceived by former Austrian Chancellor Bruno Kreisky for a joint real resource transfer by developed market economy countries for building up the required infrastructure in developing countries, it may be possible to find ways to, inter alia, arrange for emergency supplies of key inputs to Africa's industry and its infrastructure in the form of various pieces of equipment, components and spares. Multilateral donor institutions such as the World Bank tend to advocate an export-oriented industrialization strategy for Africa. However, proposals for executing such a strategy are relatively general. They present the traditional argument but should above all address such questions as: Where are the markets for African manufactures exports? What are the barriers to entry within these markets (if they exist at all) and what state and private sector policies are appropriate for eroding these barriers? How is export diversificatioin to be achieved by small economies? What are the chances for a sustained secular improvement in Africa's international terms of trade? etc.

If a viable export-oriented policy is to be adopted by African decision-makers, they will have to consider these issues on a product by product basis and to draft delicatly tuned policy initiatives for seizing market opportunities. That some scope exists for experimenting successfully with such policies is shown by the growth of counter trade arrangements throughout the developing world - an important instance being the $1 billiontrade deal between Brazil and Nigeria concluded in early 1985 which made Brazil Nigeria's largest trade partner. Similar deals, if carefully negotiated and monitored, can be a useful medium for gaining access to technology imports, avoiding debt problems and diversifying trade sources and

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35/ For a listing of these proposals see UNIDO, ID/WG.377/1, 30 June 1982, Annex I.

destinations [36]. It is desirable that both public and private sector managers and financiers be involved at an early stage in the formulation and execution of such regionally-oriented trade and investment projects and South-South trading arrangements.

For the smaller African countries international industrial specialization must imply at least a degree of regional economic co-operation. Schemes for integration have not been lacking but regional trade and investments have remained discouragingly low. The inability to develop regionally co-ordinated trade and investment strategies has been an important cause of the international vulnerability of much of African industry.

The larger African countries - Algeria, Egypt, Nigeria, Morocco, Zimbabwe - can conceive a nationally oriented industrialization strategy. Some of these countries have gone through a relatively comprehensive import substitution industrialization (ISI) phase broadly similar to the 1960s experience of some NICs - Brazil in particular. These African countries can seriously contemplate building a relationship between government and industry which permits a fuller exploitation of opportunities in international markets. These opportunities and the appropriate policy mix required are unlikely to be exact replicas of those developed by the NIDs during the 1970s. The relatively advanced African countries cannot simply repeat the NIC experiences. They will have to develop a capability for policy adaptation to rapidly changing market conditions and foster institutional innovativness which cannot emerge spontaneously as a response to the opening up of their economies to international market forces [37]. Such a strategy, if

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36/ Belcher W. "Uncertain Partners: South-South Trade Between Brazil and Black Africa", Managing International Development, Jan-Feb 1984 p.7-23.

37/ The North African economies, for example, have the opportunity to build a special relationship with the EEC. Such a relationship will have significant implications for industrial specialization within this group of countries. The NICs also developed a special relationship with the USA in the 1970s but the EEC is more likely to shield the industrial structures of North Africa from world market forces and regional financial institutions may play a more supportive role.

successful, can reduce international financial dependence of manufacturing enterprises in these countries by both increasing export revenue and facilitating a fuller use of domestic resources in the industrialization process. The servicing of debt can thus become progressively easier over the medium-run and the range of options available to such countries in international financial markets can be expected to broaden.

The smaller economies of sub-Saharan countries have, on the other hand, not experienced a sustained and comprehensive ISI phase. Hence an export-oriented industrialization strategy seems unlikely to succeed. The rehabilitation of industrial structures is crucially constrained by the small size of the national market. Whereas some policies, such as encouraging village industry and re-orienting industrial structures to give priority to the production of agricultural inputs can have undoubted beneficial effects, it is difficult to conceive of large scale intermediate or capital goods enterprises which can be a net earner of foreign exchange. For such economies an export oriented strategy may result in an increased vulnerability to price changes in international commodity markets. The inescapable conclusion must be that, for the smaller African countries, effective regional harmonization of industrial investment policies is an essential prerequisite for the rehabilitation of the manufacturing sector. If political realities foreclose the possiblity of effective regional harmonization, small African states cannot on an individual basis develop viable large scale industrial projects. Despite the adoption of remedial measures, industry will continue to display a tendency to be a net drain on foreign resources. For the smaller African countries regional harmonization must remain an important medium-term objective.

PART FOUR: CONCLUSION

This paper has presented a broad overview of changes in African industrial structures and attempted to discuss the implications of the deteriorating debt situation on industrial development in Africa. A range of short- and medium-term policy options for restructuring industry and re-organizaing debt have also been identified. It needs to be stressed that the development of a coherent macro-economic strategy vis-à-vis the industrial

sector must be based upon a detailed knowledge of individual cases - without such a knowledge it will be simply impossible to identify the whole range of policy options and opportunities available. Neither across the board deregulation nor comprehensive state control is either feasable or desirable if the intention is to make industrial development an instrument for reducing Africa's vulnerability to external shocks. There is a need to examine on a case by case basis the possibilities for combining state and market-oriented initiatives for revitalizing industry and re-negotiating the terms on which international finance is being made available 38/.

38/ The type of research indicated in the paper "External debt and the industrial sector in Africa: Outline of an approach" submitted to this meeting, can serve as an input in a research programme designed to meet this need.